

## 1999 Country Reports on Economic Policy and Trade Practices

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### SINGAPORE

#### Key Economic Indicators

(Millions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999	1/
<i>Income, Production and Employment:</i>				
Nominal GDP 2/	96,250.7	84,627.5	88,246.4	
Real GDP Growth (pct) 2/	8.9	0.3	5.0	
GDP by Sector: 2/				
Agriculture 3/	181.1	137.9	176.5	
Manufacturing	21,968.2	19,499.3	20,296.7	
Services	65,531.6	56,931.3	60,007.5	
Government expenditure	9,050.7	8,431.0	8,824.6	
Per Capita GDP (US\$)	25,758.2	21,892.5	22,056.7	
Labor Force (000s)	1,876.0	1,931.8	1,989.8	
Unemployment Rate (pct)	1.8	3.2	3.2	
<i>Money and Prices (annual percentage growth):</i>				
Money Supply Growth (M2)	10.3	30.2	36.8	
Consumer Price Inflation (pct)	2.0	-0.3	0.5	
Exchange Rate (SGD/US\$ annual average)	1.48	1.67	1.69	
<i>Balance of Payments and Trade:</i>				
Total Exports FOB	125,414.2	110,037.7	109,279.2	
Exports to U.S. CIF 4/	20,368.1	18,654.3	18,206.6	
Total Imports CIF	132,841.2	101,714.4	106,038.7	
Imports from U.S. FAS 4/	17,727.4	15,673.5	15,955.6	
Trade Balance	-7,427.0	8,323.4	3,240.4	
Trade Balance with U.S. 4/	2,640.7	2,980.8	2,251.0	
External Public Debt	0	0	0	
Fiscal Surplus/GDP (pct)	4.2	-0.3	-3.5	
Current Account Surplus/GDP (pct)	15.7	20.9	24.3	
Debt Service Payments/GDP (pct)	0	0	0	
Gold and Foreign Exchange Reserves	71,391.7	75,028.2	78,704.5	
Aid from U.S.	0	0	0	
Aid from Other Sources	0	0	0	

Note: All percentage changes are calculated based on the local currency.

1/ 1999 figures are projections based on most recent data available.

2/ Singapore introduced a methodology to include offshore stockbroking, investment advisory and insurance services in the output of the financial services industry, resulting in changes to the GDP and growth figures computed in previous years. GDP data has also been re-grouped into eleven industries from the eight previously.

3/ Includes the agriculture, fishing and quarrying industries.

4/ Trade data was taken from the U.S. Department of Commerce instead of Singaporean government sources.

### *1. General Policy Framework*

A city-state with a population of 3.9 million (of which 700,000 or 18 percent are foreigners, mainly migrant workers and professionals) astride one of the world's major shipping lanes, Singapore has long pursued economic policies that promote open trade and investment. These policies have allowed Singapore to overcome its land, labor and resource constraints, and develop into one of the world's most successful open trading and investment regimes with an average annual GDP growth rate of 7 percent in the last decade. Although Singapore's growth rate decelerated to 0.3 percent in 1998 due to the Asian economic crisis, it still had the world's fifth highest per capita GNP in purchasing power parity terms, according to the World Bank in its 1999 World Development Report. Singapore also actively promotes trade liberalization in the region through APEC and ASEAN; the APEC Secretariat is located in Singapore. It is a founding member of the World Trade Organization (WTO), and hosted the first WTO Ministerial in December of 1996.

Internally, Singapore has a free-market, pro-growth and competitive business environment characterized by a transparent and corruption-free regulatory framework. At the same time, it has a sizable public sector in the form of government-linked companies (GLCs) that account for some 60 percent of GDP. The GLCs generally operate as commercial entities, and frequently include private local and foreign equity. Many GLCs are also publicly listed companies. Manufacturing is the single largest sector in the economy, accounting for 22 percent of total GDP. Foreign multinational electronics and chemicals companies dominate this sector, producing primarily for export to the region and the developed markets, notably the U.S. and Europe. Foreign companies accounted for 67 percent of the USD 4.7 billion of new manufacturing investment in 1998. Electronics output accounts for 43 percent of total industrial output and chemicals (including oil refining) for 22 percent. Besides engaging in high value-added manufacturing activities, multinational companies also take advantage of Singapore's modern and pro-business infrastructure and productive workforce to establish headquarters and manage their regional operations from the city-state.

Wholesale and retail trade is the second largest sector in the economy, accounting for 14 percent of GDP, reflecting Singapore's key role as the gateway for goods and people into and out of the region. Trade is 2.5 times GDP, with transshipments accounting for 42 percent of total

merchandise exports. Visitor arrivals to Singapore in 1998, which suffered a 13.3 percent drop due to the recent crisis, still amounted to 6.2 million, almost twice its indigenous population. Financial services, which accounts for 13 percent of GDP, is the third largest economic sector. According to the Bank of International Settlements, Singapore is the world's fourth largest center for foreign exchange activities (after London, New York and Tokyo). Its Asian Dollar Market is also the world's eighth largest offshore lending center. The government is actively promoting its financial sector, particularly asset management, and bond and capital market activities to augment Singapore's role as an international financial center.

The government pursues conservative fiscal policies designed to encourage high levels of savings and investment. The government also invests heavily in the country's social and physical infrastructure, including education and transportation, and provides subsidies for public housing and sometimes for the purchase of shares in GLCs when they are initially listed on the stock exchange. For most of the years since the 1970's, the government has had a budget surplus. However, due to counter-cyclical measures implemented amid the Asian economic crisis, the government's budget went into a deficit of USD 243 million (about 0.3 percent of GDP) in fiscal year 1998. The deficit is forecast to widen to about USD 3 billion in FY99 (about 3.5 percent of GDP) with further pump priming of the economy.

The Central Provident Fund (CPF) is a compulsory savings program that requires 20 percent of an individual's salary be placed in a tax-exempt account, with employers contributing another 10 percent. The CPF is the basis for the extraordinarily high gross national saving rate of over 60 percent of GDP. Employers' contribution amounted originally to 20 percent of an employee's salary prior to the recent crisis, but was halved to 10 percent since the beginning of 1999 as part of a broad business cost-reduction package implemented by the government. However, a partial restoration of employers' contribution is expected by mid-2000 to ease the build-up of wage pressures emanating from a faster and stronger-than-expected domestic and regional economic recovery. Individual CPF accounts may be used, in part, to finance housing purchases and investment in stocks and other instruments approved under the CPF investment scheme.

The Monetary Authority of Singapore (MAS), the country's central bank, engages in limited money-market operations to influence interest rates and ensure adequate liquidity in the banking system. The MAS' key objective is to maintain price stability, which it achieves largely through an exchange rate policy. (Note: Inflation has averaged 2 percent annually over the last 10 years, except for 1998 when deflation of 0.3 percent set in due to the economic recession). There are virtually no controls on capital movements, thus limiting the scope for an independent monetary policy to either stimulate or restrain economic activity. The average prime lending rate among the leading banks is currently at 5.8 percent, after peaking at about 7.8 percent in the first half of 1998 amid the Asian financial crisis.

Singapore's sound economic policies and an open and favorable trading and investment climate have attracted about 1,300 U.S. companies to Singapore, with cumulative investments of

USD 19.8 billion in 1998. The United States is Singapore's largest trading partner, accounting for 19.2 percent of Singapore's total trade in 1998. Based on U.S. Department of Commerce data, U.S. exports to Singapore amounted to USD 15.7 billion in 1998, while Singapore's exports to the United States totaled USD 18.4 billion.

## *2. Exchange Rate Policy*

Singapore has no exchange rate controls. Exchange rates are determined freely by daily cross rates in the international foreign exchange markets. At the same time, the MAS uses currency swaps and direct open market operations to keep the Singapore Dollar within a desired range relative to a basket of currencies of the country's major trading partners. It seeks to maintain a strong currency to check inflation, given Singapore's extreme exposure to international trade. The government also imposes certain restrictions to limit the internationalization of the Singapore Dollar, including a requirement for banks to consult the MAS before extending credit in excess of SGD 5 million (about USD 3 million) to non-residents. It has recently opened up its Singapore Dollar debt market to foreign companies and financial institutions, however, on condition that the funds are converted to foreign exchange prior to use abroad.

The Singapore Dollar appreciated nearly 55 percent against the U.S. Dollar from 1986 to 1996. It has since depreciated, along with but to a lesser extent than other regional currencies, as a result of the Asian economic crisis. The Singapore Dollar depreciated by as much as 20 percent between July 1997 and August 1998 when it sank to its lowest rate of 1.78 to the U.S. Dollar. This has had a major impact on U.S. exports to Singapore, which fell by 11.6 percent in 1998, and are expected to show flat growth in 1999. The Singapore Dollar has since rebounded with the region's recovery, and is forecast to post an average rate of about 1.7 for 1999.

## *3. Structural Policies*

Singapore's prudent economic policies have allowed for steady economic growth and the development of a reliable market, to the benefit of U.S. exporters. Singapore was the tenth largest export market for the U.S. in 1998, slipping from the eighth and ninth positions which it occupied in 1996 and 1997, respectively. Product prices are generally determined by market forces. The government conducts its bids by open tender and encourages price competition throughout the economy.

The government has gradually reduced corporate income tax levels from 40 percent in 1986 to the current 26 percent. It aims to bring the corporate tax rate down further to 25 percent. Foreign firms are taxed at the same rate as local firms. There is no tax on capital gains except on residential properties that are sold within three years of purchase. This was implemented in 1996, together with measures to impose higher stamp duties and restrict bank credit for property purchases, in order to curb excessive speculative activities in the real estate market.

The government implemented a three percent value-added Goods and Services Tax (GST) in 1994 but reduced corporate (by one percentage point) and personal (by three percentage points) taxes. It also began providing rebates of up to SGD 700 on individual income tax in 1994 to lighten the GST burden on the citizenry. With these changes, it is estimated that 65 percent of income earners end up not having to pay personal income taxes, thus increasing the disposable incomes available to the average consumer. Singapore's personal income tax rates presently range from 2 percent for the lowest income bracket to 28 percent for those earning annual incomes exceeding SGD 400,000 (about USD 240,000).

Many of Singapore's public policy measures are tailored to attract foreign investments and ensure an environment conducive to their efficient business operation and profitability. Investment policies are open and transparent. Although the government seeks to develop more high-tech industries, it does not impose production standards, require purchases from local sources, or specify a percentage of output for export.

In view of the city-state's relatively high land and labor costs, the government has been aggressively implementing relevant manpower development, industrial restructuring and infrastructure enhancing measures to upgrade Singapore into a competitive knowledge-based economy. The plan is to attract multinational companies and service providers to establish high value-added manufacturing and service operations in the electronics, chemicals, life sciences, engineering, education, healthcare, logistics, and communications and media industries. It has also embarked on financial liberalization and reforms to develop the retail banking market and, more pertinently, widen Singapore's international scope to include asset management and bond market activities. To catalyze Singapore's advancement into a knowledge-based economy and an international financial center, the government is pursuing a policy to attract foreign professionals and qualified individuals to work and live here.

#### *4. Debt Management Policies*

Singapore's external public debt was a negligible USD 3.1 million at the end of 1994 and this was retired completely in 1995. This was one of the key factors that enabled the country to weather the currency crisis that engulfed the region in the second half of 1997 and 1998. Singapore's annual budget surpluses (prior to 1998) and mandatory savings have also allowed the government wide latitude in devising off-budget measures to increase funds to support infrastructure, education, and other programs during the current economic slowdown. Singapore does not receive financial assistance from foreign governments.

#### *5. Significant Barriers to U.S. Exports*

Singapore has one of the world's most liberal and open trade regimes. Approximately 96 percent of imports are not dutiable. Tariffs are primarily levied on cigarettes and alcohol to restrict their consumption. Excise taxes are levied on petroleum products and motor vehicles primarily to restrict motor vehicle use. There are no intentional non-tariff barriers to foreign

goods. Import licenses are not required; customs procedures are minimal and highly efficient; the standards code is reasonable; and the government actively encourages foreign investment. All major government procurements are by international tender. The government formally acceded to the WTO Government Procurement Agreement in September 1997.

To achieve its goal of becoming an international financial center, the government has begun removing previous foreign access restrictions in its financial services sector as well. In October 1999, the Monetary Authority of Singapore (MAS) issued a "qualifying full bank" (QFB) license to four Singapore-based foreign banks which allows each of them to establish ten locations (branches and off-premise ATM's), to freely re-locate existing branches, and to share ATM's among themselves. At the same time, the MAS issued eight additional restricted bank licenses to bring the total up to 20. These measures significantly expand the capability of foreign banks to engage in local retail banking. Foreign banks currently hold 23 of the 35 full (local retail) banking licenses. Apart from the QFB licensed banks, other foreign full license banks are still not allowed additional branches or ATM machines, while local banks are allowed to expand freely. Meanwhile, the MAS continues to encourage the growth of the offshore banking industry in Singapore. It recently designated eight new "qualifying offshore banks" (QOB) which will have their Singapore Dollar lending limit raised to SGD 1 billion, while raising the limit for all other offshore banks from SGD 100 to SGD 300 million. QOB banks will also be allowed to accept Singapore Dollar funds from non-bank customers through swap transactions.

There are still restrictions on the extent to which foreign stock brokerage firms can trade in the equity securities markets for Singapore resident clients. Current Stock Exchange of Singapore (SES) regulations restrict foreign equity ownership of SES member companies to 49 percent, with the exception of two joint ventures approved prior to 1990 and the special category of "international members" which are permitted to do only wholesale trading for resident clients. The MAS recently announced, however, that both the stock and futures exchanges are to be demutualized and merged by 1 December 1999, and that the combined exchange itself is eventually to be publicly listed. No new licenses for direct (general) insurers are being issued, although reinsurance and captive insurance licenses are freely available. Foreign companies hold about three-quarters of the 59 direct insurance licenses.

The telecommunications sector has been steadily liberalized since 1989, although the government still imposes limits on the number of telephone service providers in Singapore. Restrictions on the sale of telecommunication consumer goods and the provision of value-added network services (VANS) have been lifted, although the government prohibits the importation of satellite receivers. Singapore Telecom (SINGTEL) has been privatized and its regulatory functions assumed by the Telecommunications Authority of Singapore (TAS). Private investors now own up to 20 percent of shares in SINGTEL. In April 1996, Mobile One (a Singapore-foreign joint venture) became the second cellular phone service provider in Singapore, thus ending SINGTEL's monopoly in the mobile telephone services market. Three new paging service providers also entered the market at the same time. In April 1998, TAS announced that it has issued a license to a new joint venture basic telephone service provider ("Starhub") to begin

operation in 2000, and will consider additional ones for 2002. At the same time, it issued a third cellular phone service license to a foreign joint venture company.

## *6. Export Subsidies Policies*

Singapore does not directly subsidize exports although it does actively promote them. The government offers significant incentives to attract foreign investment, almost all of which are in export-oriented industries. It also offers tax incentives to exporters and reimburses firms for certain costs incurred in trade promotion, but it does not employ multiple exchange rates, preferential financing schemes, import cost-reduction measures or other trade-distorting policy tools.

## *7. Protection of U.S. Intellectual Property*

Singapore has been on the USTR's Special 301 Watch List since 1997, primarily due to concerns that its intellectual property (IP) rights regime was not fully consistent with the WTO's trade-related intellectual property (TRIPS) provisions, and that police enforcement against retail IP piracy has been inadequate. Other outstanding issues included the lack of rental rights for sound recordings and software, inadequate protection against the sale of bootleg copies of musical performances, the limited scope of copyright protection for cinematography works and overly broad exemptions from copyright protection.

Over the past two years, however, the government has taken significant measures to improve IP rights protection in Singapore. It is a member of the World Intellectual Property Organization (WIPO), and has ratified the WTO's Uruguay Round Accord, including TRIPS provisions. It has enacted a series of laws and amendments to existing provisions with the aim of rendering its IP regime fully TRIPS consistent and improving its overall IP protection regime. These included numerous amendments to its Copyright Law (1998), the Medicines Act (1998), a new Trade Marks Bill (1998), and a new Geographical Indications Act and Layout Designs of Integrated Circuits Act (1999). More recently, the government expanded the Copyright Act to cover digital and internet piracy as well. In December 1998, Singapore became a member of the Berne Convention so that works created by Singapore citizens and residents now enjoy copyright protection in over 100 member countries, and vice versa. Singapore is also a signatory to three other international copyright agreements - the Paris Convention, the Patent Co-operation Treaty, and the Budapest Treaty. Singapore is not a member, however, of the Universal Copyright Convention.

In the area of enforcement, the government's new licensing requirements for optical disc (OD) manufacturing and import controls on OD manufacturing equipment came into force in October 1998. These measures are generally believed to have effectively eliminated the production of pirated optical discs in Singapore. At the same time, the government has increased the number and scope of police-initiated raids against IP pirates at the retail level. According to Singapore's Trade Development Board, the authorities conducted a total of 682 raids in 1998,

which resulted in the seizure of over two million IP-infringing articles, a significant rise over the previous year. Through the first nine months of 1999, authorities launched over 1,800 raids, seized more than 1.1 million IP-infringing articles, and arrested about 330 suspected IP pirates. In December 1998, the government launched a long-term campaign aimed at educating primary and secondary students as well as the general public on the IP issue, underscoring the message that buying pirated goods is wrong, undercuts profits for manufacturers, and will eventually lead to fewer choices for consumers.

In October 1999, a number of U.S. publishers, in cooperation with European and local publishers, formed the Copyright Licensing and Administration Society of Singapore (CLASS). CLASS will utilize a provision of the Copyright Act to compel local universities and other educational institutions to pay royalty fees in exchange for the right to duplicate copyrighted printed works for use in course materials.

Despite government efforts that have brought IP piracy rates down to among the lowest in Asia, IP owner associations here continue to press for greater IPR protection. They cite the continued availability of pirated film, music and software OD's for sale in a number of downtown shopping malls and at stalls scattered among suburban housing estates. The IP associations note that nearly all of the pirated OD's have been smuggled into Singapore from neighboring countries, and urge greater border enforcement. Meanwhile, they remain frustrated by the current "self help" IP enforcement system that they argue places an unfair burden on them and makes initiating raids and prosecuting pirates cumbersome and expensive. IP associations have recommended that the government create an independent IPR enforcement police force and called for the mandatory use of Source Identification (SID) codes. They have also pointed out inadequacies in the August 1999 amendments extending Copyright Protection to the internet and certain digital works. They note that internet service providers are not held liable for allowing sites to sell pirated goods, and that the present law allows up to 10 percent of the bytes of a digital work to be legally copied.

According to the International Intellectual Property Alliance (IIPA), total losses from local IP piracy were estimated at about USD 140 million in 1998, up from USD 125 million in 1997. For business application software, IIPA estimated 1998 losses at nearly USD 50 million with a 54 percent level of piracy, as compared to USD 46 million in losses and a 56 percent piracy rate in 1997. For computer entertainment software, it estimated USD 65 million in losses and a 73 percent piracy rate in 1998, up from USD 58 million and a 68 percent piracy level in 1997. IIPA calculated that the motion picture industry lost USD 8 million due to a 25 percent piracy level in 1998, up from USD 3 million lost to 1997's 15 percent level of piracy. The music industry was reported to have suffered losses of USD 16 million and a 19 percent piracy rate in 1998. This was an improvement over losses of over USD 17 million and a 30 percent piracy level in 1997. The American Association of Publishers estimated that publishers lost USD 2 million to piracy of printed works in 1998, compared to USD 1 million lost in 1997.

## *8. Worker Rights*

*a. The Right of Association:* Article 14 of Singapore's Constitution gives all citizens the right to form associations, including trade unions. Parliament may, however, based on security, public order, or morality grounds impose restrictions. The right of association is delimited by the Societies Act, and labor and education laws and regulations. In practice, communist labor unions are not permitted. Singapore's labor force numbered 1.9 million in 1998, of which 272,769 or 14 percent of the labor force were organized into 80 trade unions.

*b. The Right to Organize and Bargain Collectively:* Over ninety percent of union members in 71 of the 80 trade unions are affiliated with an umbrella organization, the National Trades Union Congress (NTUC), which has a symbiotic relationship with the government. The NTUC's leadership is made up mainly of Members of Parliament belonging to the ruling People's Action Party (PAP). The Secretary-General of the NTUC is also an elected Minister without Portfolio in the Prime Minister's office.

The Trades Union Act authorizes the formation of unions with broad rights. Collective bargaining is a normal part of labor-management relations in Singapore, particularly in the manufacturing sector. Collective bargaining agreements are renewed every two to three years, although wage increases are negotiated annually.

*c. Prohibition of Forced or Compulsory Labor:* Singapore law prohibits forced or compulsory labor. Under sections of Singapore's Destitute Persons Act, however, any indigent person may be required to reside in a welfare home and engage in suitable work.

*d. Minimum Age for Employment of Children:* The government enforces the Employment Act, which prohibits the employment of children under 12 years and restricts children under 16 from certain categories of work.

*e. Acceptable Conditions of Work:* The Singapore labor market, which has a low average annual unemployment rate of about 2 percent, offers relatively high wage rates and working conditions consistent with international standards. (Note: The average unemployment rate increased slightly to 3.2 percent during the economic downturn in 1998.) However, Singapore has no minimum wage or unemployment benefits. The government enforces comprehensive occupational safety and health laws. Enforcement procedures, coupled with the promotion of educational and training programs, have reduced the frequency of industrial accidents (measured by the number of industrial accidents per million hours worked) to 2.5 in 1998, from 4.2 a decade ago. The average severity of occupational accidents (defined as the number of industrial workdays lost per million hours worked) has, however, remained at 416, little changed from the rate of 418 recorded in 1989.

*f. Rights in Sectors with U.S. Investment:* U.S. firms have substantial investments in several industries, notably petroleum, chemicals and related products, electronic and electronics equipment, transportation equipment, and other manufacturing areas. Labor conditions in these

sectors are the same as in other sectors of the economy. Many employers resort to hiring foreign workers to ease shortages in unskilled and highly-skilled jobs. Since 1997, the government has been committed to a policy of attracting foreign skilled individuals and professionals to work in Singapore to supplement its own limited talent pool and catalyze the city-state's advancement into a knowledge-based economy and an international financial center. There are presently about 530,000 foreigners working in Singapore (27 percent of the workforce), of which about 80,000 are in the skilled category while the rest are the lower-skilled workers employed mostly as construction workers or domestic helpers.

**Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad  
on an Historical Cost Basis -- 1998**

(Millions of U.S. Dollars)

Category	Amount
Petroleum	2,920
Total Manufacturing	8,438
Food & Kindred Products	13
Chemicals & Allied Products	255
Primary & Fabricated Metals	153
Industrial Machinery and Equipment	2,747
Electric & Electronic Equipment	4,763
Transportation Equipment	106
Other Manufacturing	401
Wholesale Trade	3,245
Banking	727
Finance/Insurance/Real Estate	3,769
Services	681
Other Industries	3
<b>TOTAL ALL INDUSTRIES</b>	<b>19,783</b>

Source: U.S. Department of Commerce, Bureau of Economic Analysis.